



CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

January 9, 2002

H.R. 3323 **Administrative Simplification Compliance Act**

*As cleared by the Congress on December 12, 2001,
and signed by the President on December 27, 2001*

SUMMARY

H.R. 3323 (enacted as Public Law 107-105) will delay by one year the deadline for health providers and health plans to follow uniform national standards for the formats and medical codes used to exchange health care data. CBO estimates that this act will have a significant effect on direct spending only in the Medicaid program, decreasing federal Medicaid spending by \$50 million in 2002 and increasing spending by \$50 million in 2003. Over the 2002-2006 period, there will be no net change in federal Medicaid spending.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 3323 on direct spending is shown in the following table. The costs of this legislation fall within budget function 550 (health).

	By Fiscal Year, in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	-50	50	0	0	0	0	0	0	0	0
Changes in receipts	Not applicable									

BASIS OF ESTIMATE

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires health providers and health plans to follow uniform national standards for the formats and medical codes used to exchange health care data with providers. To meet these requirements, providers and plans will have to revamp their computer systems to handle the new formats

and codes. Under prior law, the deadline for complying with the HIPAA requirements (spelled out in federal regulations) was October 16, 2002. The act delays this deadline until October 16, 2003, for entities that submit a compliance plan to the Department of Health and Human Services by October 16, 2002.

CBO estimates that each state will spend \$4 million to \$5 million implementing the HIPAA requirements, depending on the size of its Medicaid program, the readiness of its computer systems, and the extent to which the state relies on managed care entities to provide services. These figures are based in part on data from the Centers for Medicare & Medicaid Services showing that federal and state Medicaid spending on computer systems is about \$30 per enrollee. CBO assumes that the costs of the HIPAA requirement will increase this figure by 10 percent, and that under prior law some states also would have had to pay vendors an additional premium to meet the compliance deadline. CBO also assumes that some managed care plans will add one-quarter of a percentage point to their capitation rates to pay for their compliance with the HIPAA requirements.

Under prior law, CBO estimates that total federal and state Medicaid spending to comply with the HIPAA requirements would have been \$160 million in 2002 and \$60 million in 2003. (Costs would have been incurred in 2003 because some states would have been unable to meet the October 16, 2002, deadline.) CBO anticipates that the act will shift about \$60 million in spending from 2002 to 2003. Although some states will still meet the original deadline, other states will delay implementation and avoid paying vendors the extra premium needed to meet the original deadline. However, these latter states will still see higher costs as the prices of vendor services rise with inflation.

The federal share of Medicaid administrative costs for computer systems ranges from 75 percent to 90 percent depending on the type of service. CBO assumes that most of the costs of the HIPAA requirements will be for systems development (which has a federal match rate of 90 percent), and that the federal government will pay an average of 86 percent of the overall costs for HIPAA implementation. As a result, CBO estimates that the act will decrease federal Medicaid spending by \$50 million in 2002 and increase spending by \$50 million in 2003.

ESTIMATE PREPARED BY: Jeanne De Sa and Eric Rollins

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis